

Strategic Review Global Equity

October 17, 2011

Objectives

- Asset class role
- Characteristics: Portfolio, Benchmark, Capital Allocation, Performance
- Recent achievements
- Resources deployed
- Future Vision
- Functional model
- Action Plan - Challenges
- Legacy Special Programs
- Manager Contract Renewals

Role of Global Equity Within CalPERS

Growth: Public Equities

The role of equities is total return oriented and to capture the equity risk premium (ERP), defined as the excess return over risk free government bonds, by means of ownership risk in companies and exposure to corporate earnings growth. The major driver is appreciation, with some cash yield.

- CalPERS ALM Workshop (2010)

Board-approved target allocation of 49% with a range of 42% to 56%

Characteristics - Portfolio

- 50% of the CalPERS Total Fund
 - \$123.3 billion
- Benchmark: CalPERS Custom FTSE All-World, All-Capitalization
- Coverage
 - 47 countries
 - 9,957 securities
 - Currencies and equity derivatives
- 61 distinct portfolios

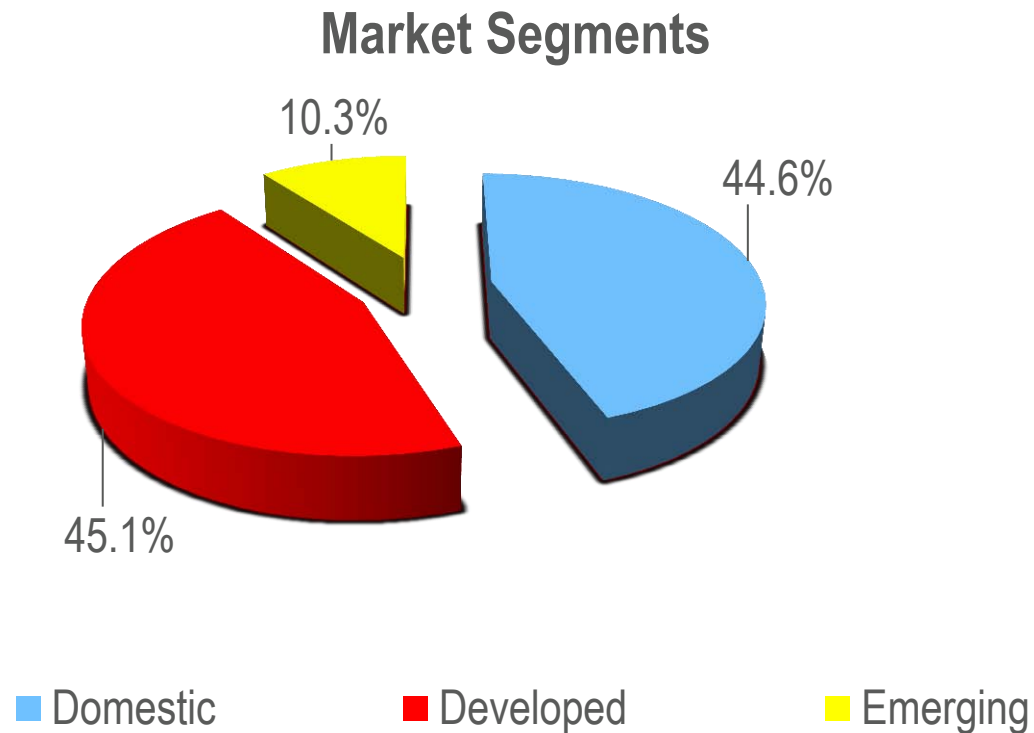
- Recent Risk Metrics

	1 year	2 year	3 year
Volatility	14.0%	15.1%	23.2%
Tracking Error	0.23%	0.34%	1.20%

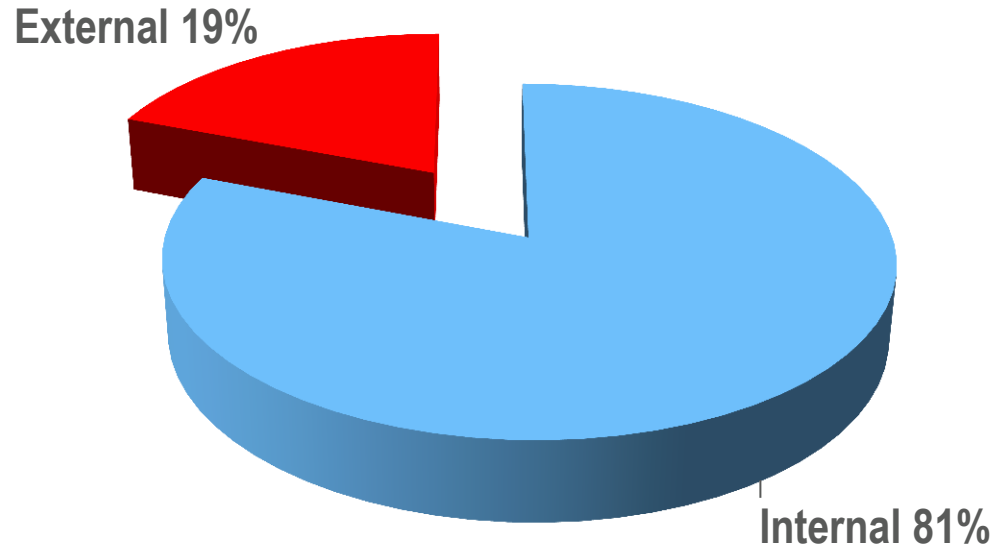
June 30, 2011

Characteristics - Benchmark

FTSE All World, All Capitalization

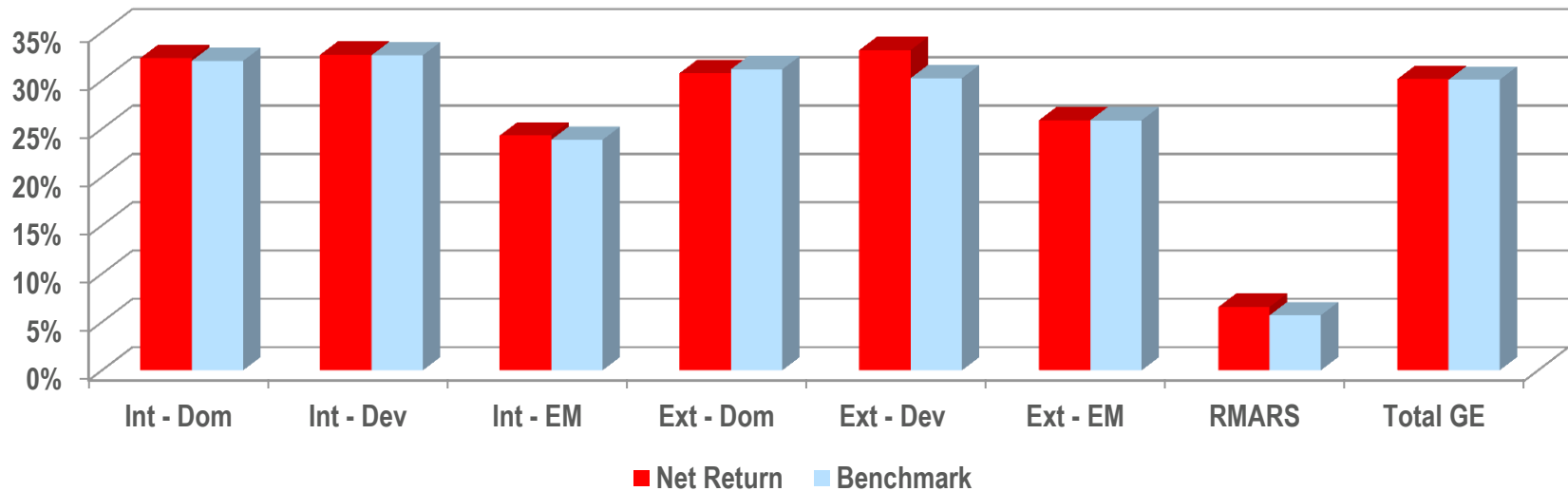


Characteristics - Capital Allocation



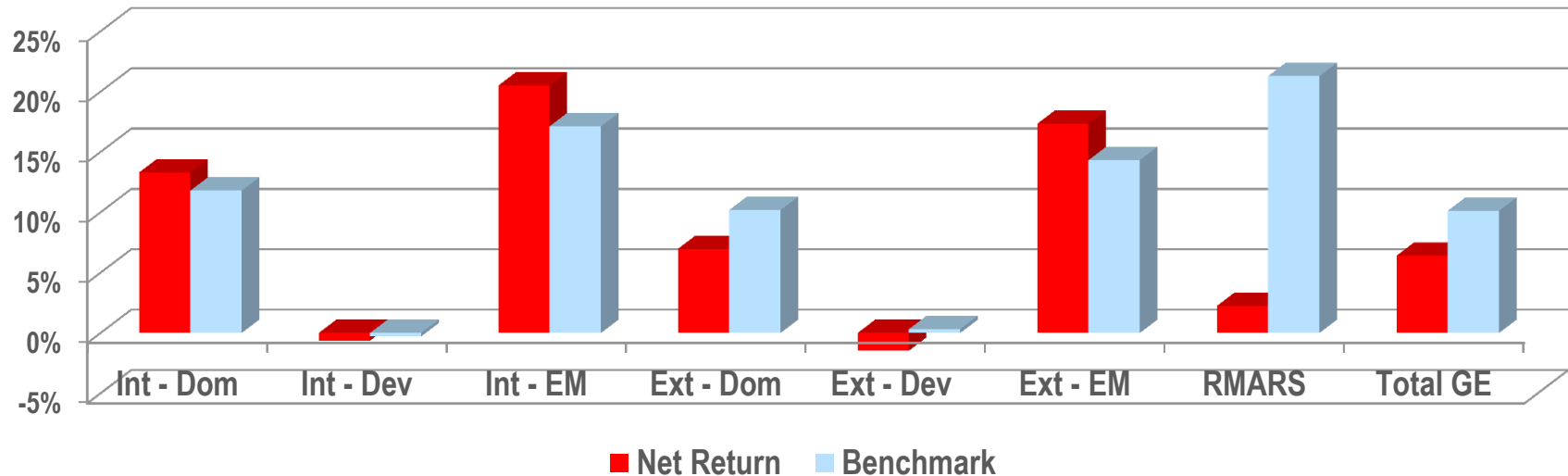
	2007	2008	2009	2010	2011
Internal	67%	70%	71%	75%	81%
External	33%	30%	29%	25%	19%
# of Managers	41	30	24	21	16

Characteristics - Performance (1-yr)



	Internal			External			RMARS	Total GE
	Domestic	Developed	Emerging	Domestic	Developed	Emerging		
Excess	0.29%	0.07%	0.46%	-0.39%	2.91%	0.01%	0.87%	0.08%
IR	1.35	0.33	1.17	(0.37)	1.35	0.00	0.24	0.34
Success	58%	58%	58%	33%	42%	58%	50%	58%

Characteristics - Performance (3-yr)



	Internal			External			RMARS	Total GE
	Domestic	Developed	Emerging	Domestic	Developed	Emerging		
Excess	1.50%	-0.37%	3.38%	-3.22%	-1.79%	3.01%	-19.05%	-3.73%
IR	1.35	(0.66)	0.83	(0.73)	(0.27)	0.33	(0.94)	(1.04)
Success	67%	44%	56%	42%	44%	53%	50%	47%

Recent Achievements

Objectives	Results
Performance	<ul style="list-style-type: none"> - 1 Year value added - \$564 million - 3 Year value added - \$1,188 million - Since Inception value added - \$3,513 million
Capital Allocation Process	<ul style="list-style-type: none"> - Established review committee and governance model - Obtained risk target – 50 basis points tracking
Strategy Implementation	<ul style="list-style-type: none"> - Fundamental – deployed \$7 B - Synthetic Enhanced - \$3 B - Small / micro cap – emerging markets
Alignment of Interest	<ul style="list-style-type: none"> - Fee & expense reduction - \$100 mm - Transparency, control - RMARS & Corporate Governance
Corporate Governance	<ul style="list-style-type: none"> - Majority voting - Focus list evolution - INVO wide IESG plan

Recent Achievements - Continued

Objectives	Results
Market Reform	<ul style="list-style-type: none"> - OTC Derivatives – Business conduct, Clearing, Collateral - Credit ratings
Diverse Director	<ul style="list-style-type: none"> - Diverse Director Datasource - launched 9/2011
Global Equity Functionalization	<ul style="list-style-type: none"> - Migrated RMARS team - Migrated Corporate Governance team - Established functional categories and teams
Brokerage Restructure	<ul style="list-style-type: none"> - Established transparent, equitable process - Execution quality, value added and operational efficiency - Increase materiality – 100+ -> 33 - Increase participation of small, emerging firms - Domestic – 45% of number & 48% of \$
GEA (Global Equity Alpha) Platform	<ul style="list-style-type: none"> - Data handling - Analysis – 6 tools - Optimization – non-linear, absolute return & tracking error - Monte carlo simulation – risk analysis

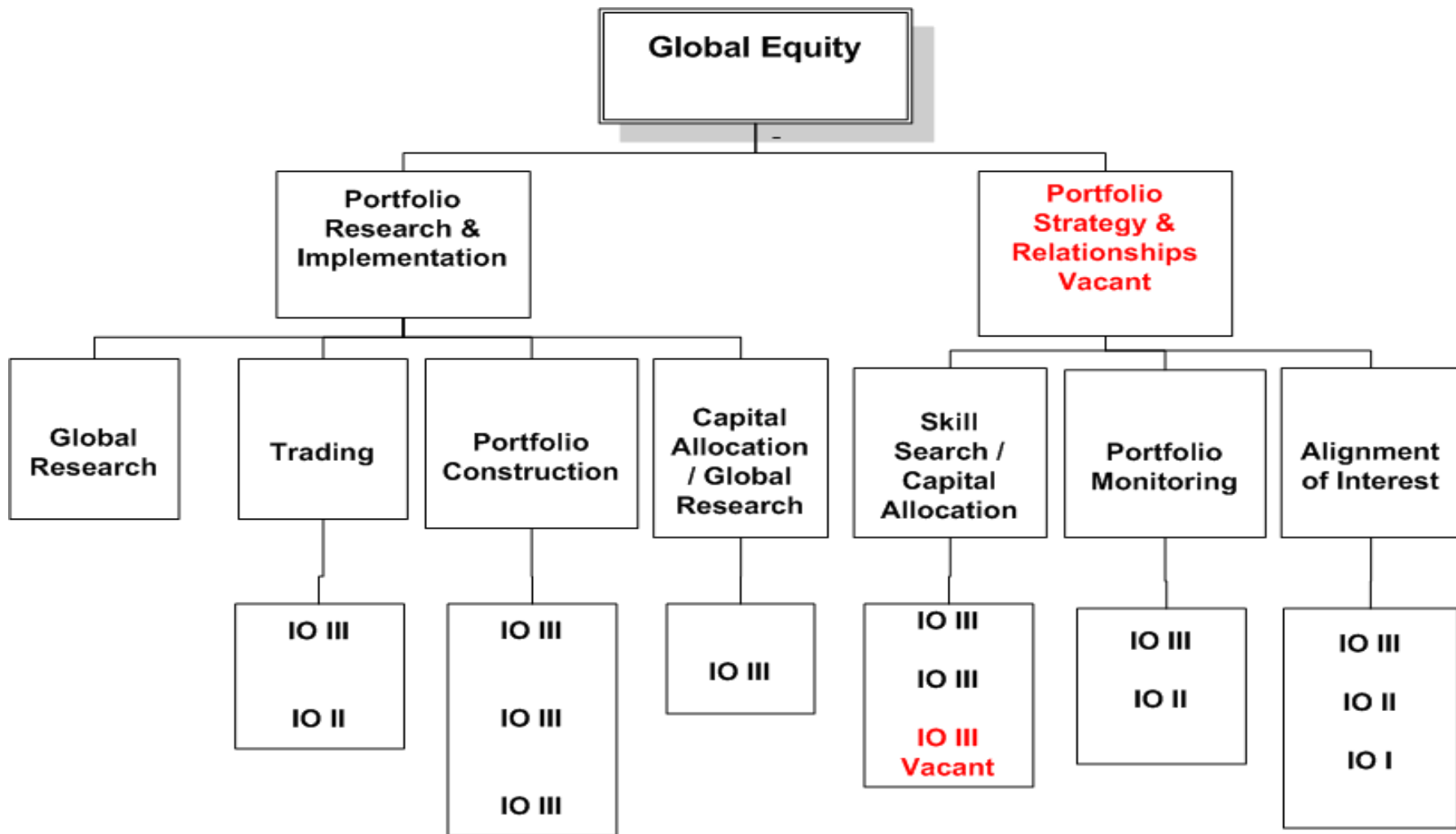
Results and Expenses – Since Inception

	Values*
Internal Value Added	\$1,572,367,000
External Value Added	\$1,940,997,000
Total Value Added	\$3,513,364,000
Internal Expense**	\$ 68,371,000
External Expense	\$ 803,326,000
Total Expense	\$ 871,697,000

* Estimated from asset levels, returns and fee schedules

** Estimated as fiscal year 09/10 proportion of external expense (8.5%)

Global Equity Organization Chart



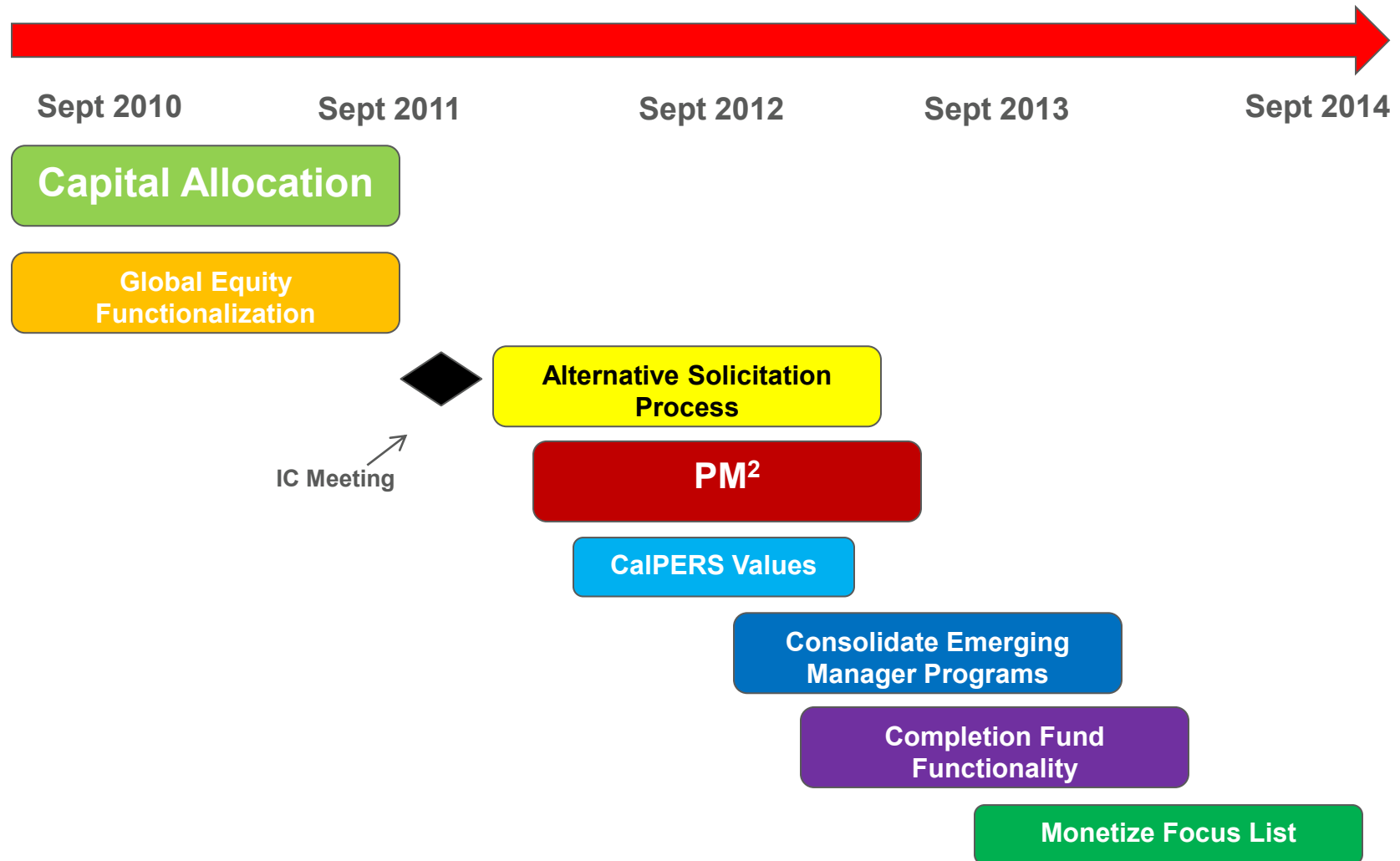
Long-Term Vision

Manage a holistic, robust, and efficient process capturing the asset class risk and return profile and capitalizing on appropriate value-added strategies

From	To
Redundant processes within each silo	Single, functional areas executing specific activities
Siloed, idiosyncratic capital allocation and benchmarks	Holistic capital allocation driven by overall program needs
Fragmented, inconsistent, spreadsheet based technology	Integrated, consistent shared data, controlled work flow
Disparate emerging manager programs with evolutionary opportunities	Strategic, logical structure consistent with Capital Allocation process
Broad array of unintended, uninformed risks	Risks limited to informed active positions



Implementation Timeline



Functionalized Operating Model

Strategy Search	Identify external strategies to add value
Alignment of Interest	Appropriate fee and incentive structures, transparency, and control
Portfolio Monitoring	Quantitative performance evaluation for all Global Equity strategies
Global research	Develop internal value-add strategies
Portfolio Construction	Daily analysis and management of internally-managed portfolios
Trading	Buy and sell portfolio securities
Capital Allocation	Eliminate uncompensated risk and include high conviction skill

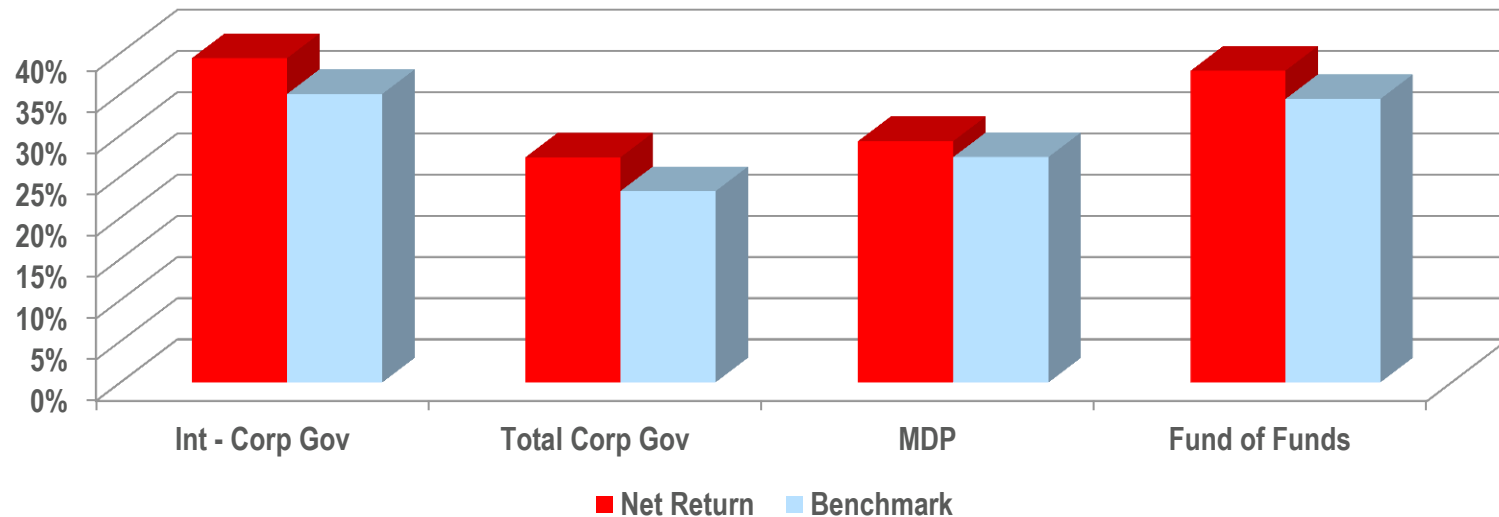
Action Plan - Challenges

	Description
Functional Team Leadership	<ul style="list-style-type: none"> - Recruit SPM - Obtain resources – replace capacity, new skills & IPTS
PM ²	<ul style="list-style-type: none"> - Alternate path to functionality - Obtain resources – internal management capacity - Migration to completion fund capital allocation flexibility
Research Depth	<ul style="list-style-type: none"> - Obtain resources - benchmark structures & tilts - Obtain resources – performance attribution - Obtain resources - decision validation model
Emerging Manager	<ul style="list-style-type: none"> - Vision – path to direct relationship - Clear delineation - Consistency with capital allocation process & holistic view - Restructure & expand relationships - First alternate solicitation process utilization
Policy	<ul style="list-style-type: none"> - Remove artificial divides – corporate governance

Legacy Special Programs

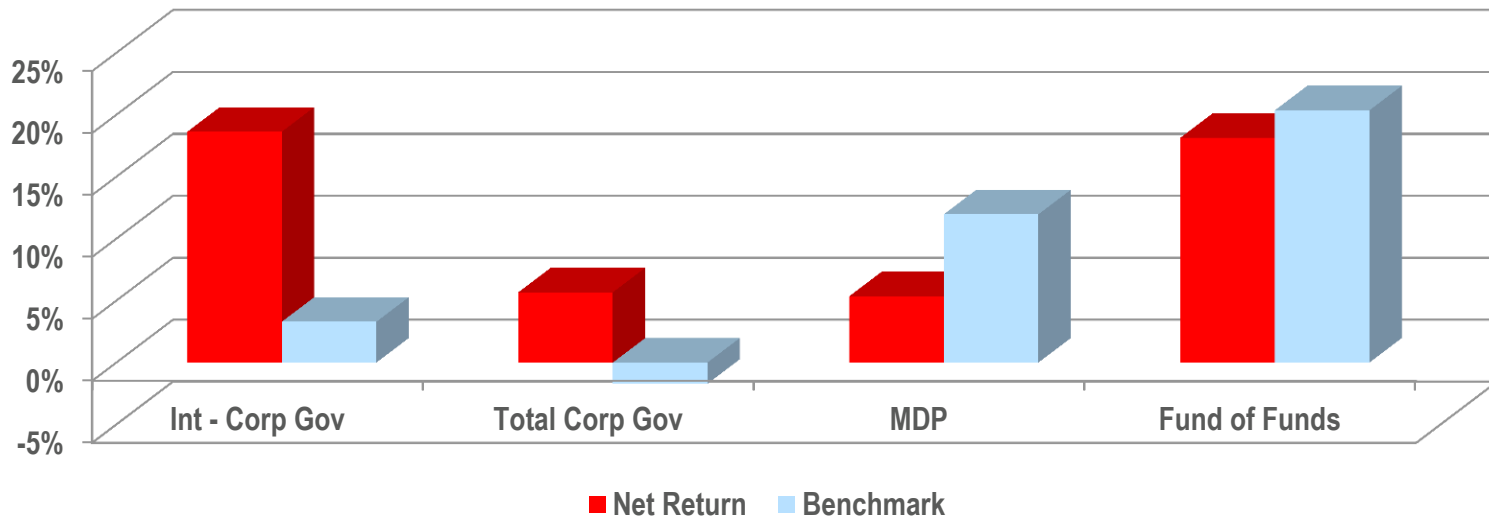
- **Corporate Governance Investment**
 - **External Managers**
 - **Internal Co-investment**
- **Emerging Managers**
 - **MDP**
 - **Fund of Funds**

Performance (1-yr)



	Corporate Governance		Emerging Managers	
	Internal	Total	MDP	Fund of Funds
Excess	4.35%	4.10	1.94	3.44
IR	0.44	1.01	1.69	3.27
Success	50%	50%	58%	83%

Performance (3-yr)



	Corporate Governance		Emerging Managers	
	Internal	Total	MDP	Fund of Funds
Excess	15.34%	7.38%	-6.61%	-2.22%
IR	0.44	0.52	(0.90)	(0.31)
Success	53%	50%	39%	61%

Manager Contract Renewals

See Attachment 2

Questions?